



October 14, 2010

Thursday Morning Kickoff @ Saxo

Stocks power higher as USD tanks; Google up next

Themes

- We clearly broke the 1170-threshold yesterday and are looking for a higher opening. If this comes true then look for a test of the 1200-level very soon else look for a couple of days retesting the 1170-level.

What's going on?

European equity markets will most likely open around 0.2% higher today as JPMorgan presented decent earnings results yesterday. Worth noticing is however that the provisions (less loan losses than expected) were 1.5 bn. USD out of the total earnings of 4.4 bn. USD and thereby if these are subtracted then JPMorgan would not have made the streets estimate. But the market is in a very bullish mode currently and it did not seem as if that mattered much in the assessment of earnings report from JPMorgan. Look out for the Google report today (after market).

Thursday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
12:30	US Trade Balance (AUG)	-\$44.5B	-\$44.0B	-\$42.8B
12:30	US PPI MoM (SEP)	0.2%	0.1%	0.4%
12:30	US Core PPI (SEP)	0.1%	0.1%	0.1%
12:30	US Initial Jobless Claims		445K	445K
12:30	US Continuing Jobless Claims		4450K	4462K
Aft-Mkt	Google		6.67	5.71

Saxo Bank Strategy & Research

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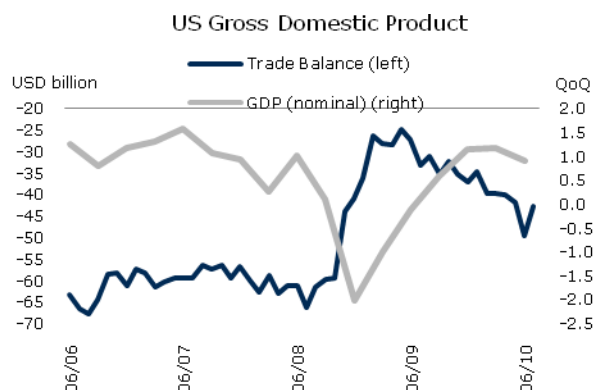
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Markets at a glance

No indicators out of Europe today, so we'll have to wait until 12:30 for a bunch of US reports even though they are not likely to disrupt the current stock market euphoria driven by JPMorgan's better than expected earnings (more on the *beat* below). Google is the one to watch out for today when the company releases its earnings after the markets have closed.



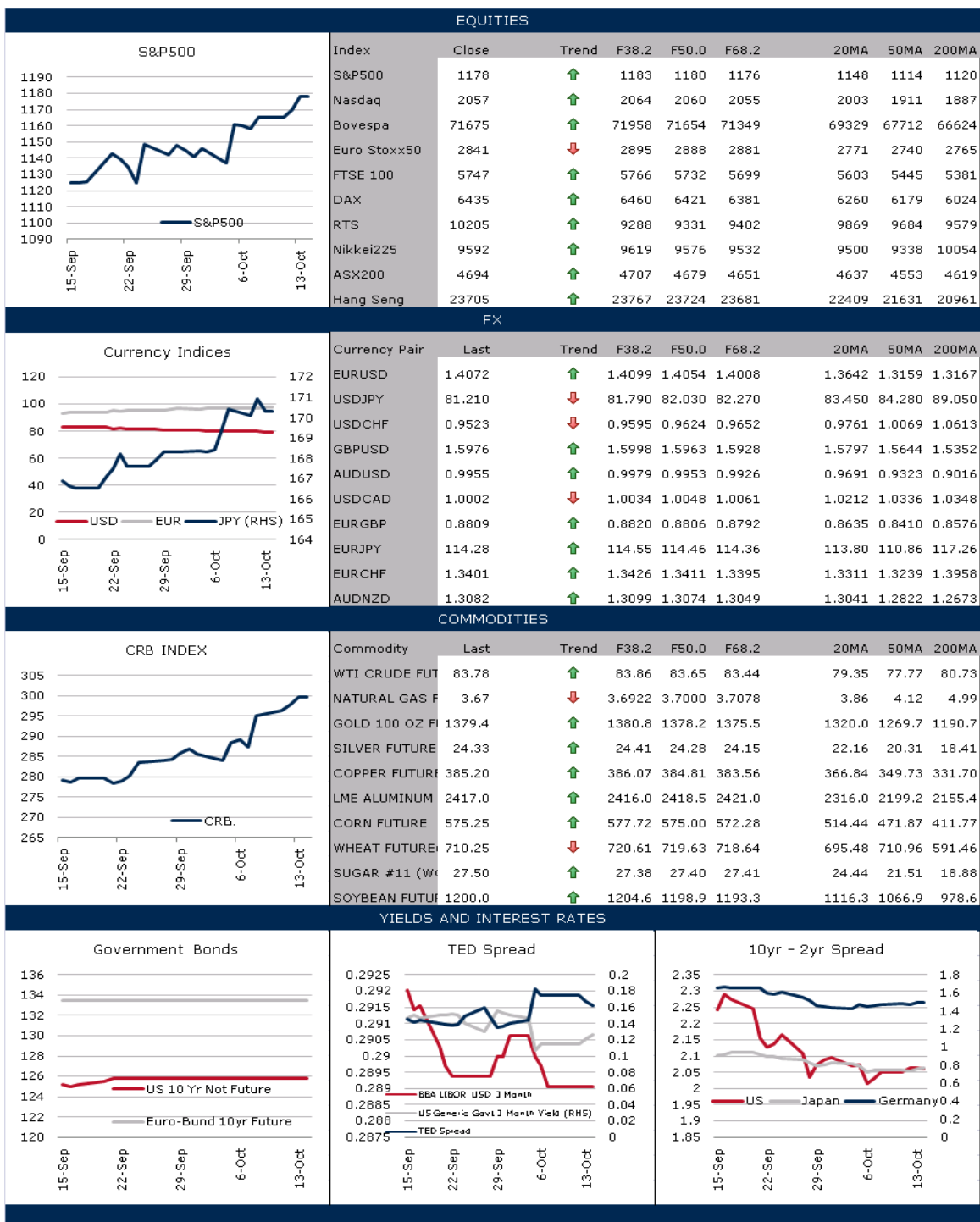
The US trade deficit narrowed significantly to \$42.8B in July, which is 2.5% smaller than the quarterly average for the second quarter. If this trend continues – or if the deficit just stagnates around the current level – it will have a material positive impact on 3Q GDP growth. Net

exports contributed a massive -3.5% to the second quarter's 1.7% GDP growth (ann.), but that effect will be much smaller or possibly even have be positive for the third quarter if the trade balance continues to hover around the July level. We look, however, for a slight increase in the trade deficit as imports are expected to have firmed a bit. Imports declined 2.1% in July – the biggest decline since February 2009.

Equities: a closer look

The earnings season continued yesterday with the report of JPMorgan. And this was an interesting report. Revenues were down 15% and the margin improvement was not that impressive so the earnings report should not have generated a bullish reaction like the one observed. More than one third of the earnings were provisions and if we remove this from the reported EPS then JPMorgan would have realized an EPS around 70c instead of the 1.01 USD reported. The estimate of the street was 0.88c and clearly a miss if the provisions were omitted. This confirms our overall assessment of the financial sector, both in Europe and the US that operating costs will just go higher from here and revenues lower putting the earnings under severe pressure.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
UK Claimant Count Rate(SEP)	4.5%	4.5%	4.5%	4.5%	
UK Jobless Claims Change (SEP)	1.7K	4.5K	5.3K	2.3K	3.8K
UK ILO Unemployment Rate (AUG)	7.8%	7.8%	7.8%	7.8%	
EC Industrial Production MoM (AUG)	0.4%	0.8%	1.0%	0.0%	0.1%
US Import Price Index MoM (SEP)		-0.2%	-0.3%	0.6%	



Source: Bloomberg. Our calculations.

Note: the trend is defined as the slope of the 13-day exponential moving average.

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